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UNCLAS SECTION 01 OF 02 OTTAWA 000566

SIPDIS

STATE FOR P: UNDER SECRETARY GROSSMAN AND MIKE HAMMER

STATE ALSO FOR EB/TPP/BTA EB/ESC/ISC (MCMANUS AND
ERVITI), WHA/CAN (MASON AND RUNNING), OES/EGC (MIOTKE
AND DEROSA)

WHITE HOUSE FOR NSC (SAMMIS AND BROCK), OPD (MCNALLY) AND
OVP (O'DONOVAN)

DOE FOR S-STAFF (HUDOME), INT'L AND POLICY (A/S BAILEY) AND
IE-141 (PUMPHREY, DE VITO AND DEUTSCH)

STATE PASS FERC FOR CHAIRMAN WOOD AND DONALD LEKANG

COMMERCE FOR 4320/MAC/WH/ON/OIA/BENDER

PARIS FOR USOECD/IEA

E.O. 12958: N/A

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SUBJECT: ENERGY FROM CANADA: PRELIMINARY 2002 DATA

REF: (A) CALGARY 066
(B) OTTAWA 503
(C) 02 OTTAWA 2474

11. SUMMARY/INTRODUCTION: The dominant position of Canadian energy production and trade for the United States is reinforced by preliminary 2002 data. The statistics from Canada's National Energy Board, Natural Resources Canada, and the U.S. Energy Information Administration show:

-- Canada exported an estimated 1.58 million barrels per day of crude oil to the United States during 2002 - a new record, up 4 percent over 2001. (Canada is the United States' top petroleum supplier and largest foreign supplier of total energy).

-- As Canadian production shifts toward frontier sources, the share of heavy/synthetic crude continues to grow and now accounts for 62 percent of Canada's crude exports.

-- Canadian oil reserves continue to grow. Proven conventional reserves grew by about 3.1 percent in 2001, faster than North American demand. This does not include frontier reserves such as oilsands and offshore resources.

-- Canada's oil sands contain 1.7 to 2.5 trillion barrels of oil. Of this, at least 170 to 300 billion barrels are commercially recoverable with current technology at any world oil price over US\$20 per barrel.

-- Canada also supplies the vast majority of the United States' imports of natural gas. Despite the U.S. economic slowdown, Canada's gas exports held level in 2002, after growing by over 30 percent in the previous five years.

END SUMMARY/INTRODUCTION

12. The United States and Canada have not only the world's largest economic relationship, but also its largest energy relationship. Canada exported about US\$30 billion worth of energy to the United States in 2002 - about 8 percent of Canada's exports to the U.S. (other major categories of which are vehicles and parts, machinery, and forest products).

13. About 96 percent of Canada's energy exports are destined for the United States. U.S.-Canada energy trade has held steady through the recent U.S. slowdown, hanging on to rapid gains made in the 1990's (even though overall bilateral trade went through an unusual shrinkage of roughly ten percent in 2000-2002).

14. OIL: Canada exports about 1.5 million barrels per day of crude oil to the United States, plus another 0.4 MMB/D in gasoline, heating oil, jet fuel and related products. This provides about 17 percent of U.S. oil imports and nearly 10 percent of total U.S. oil demand. Canada's oil exports to the U.S. grew about 4 percent last year, and have increased 29.6 percent over the past five years (2002 over 1997). Oil sands production and exports are expected to reach one million barrels per day by the end of 2003.

15. NATURAL GAS: Canada exported 106 billion cubic meters of gas to the U.S. last year - about 18 percent of U.S. gas demand. These exports held steady from 2001, having risen more than 30 percent from 1996-2001. Sustaining this growth

requires joint efforts to facilitate the development of Arctic resources (see ref B for analysis).

16. ELECTRICITY: Canada exported about 35 terawatt-hours of electric power to the United States in 2002. This total was down from 2001, but net exports remain more than 20 TWH per year because U.S. power flows to Canada were also down (to about 14 TWH). Canada's total electricity exports peaked in 2000 and are now on a declining trend, due to a lack of capital investment in both the U.S. and Canadian electric power industries and the difficulty of building new transmission capacity (see ref C for analysis).

17. URANIUM: Canada has 15 percent of the world's known recoverable uranium, but accounts for over 30 percent of world production.

18. SOURCES: For more information on Canada's energy production and exports, see websites of Canada's National Energy Board (neb-one.gc.ca), Natural Resources Canada (nrcan-rncan.gc.ca under "subsites - energy sector"), and the U.S. Energy Information Administration (eia.doe.gov under "country analysis briefs").

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